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World Affairs Council, Boston, MA. December 15, 1982

Statement

by

A. W. Clausen, President

The World Bank

and

International Finance Corporation

before the

World Affairs Council of Boston

Boston, Massachusetts

December 15, 1982

Thank you, Peter. And good evening, ladies and gentlemen.

It is an honor for me to speak in this distinguished forum. There is no doubt in my mind that the world would be a better place if more Americans knew better about it. And that's why I'm so pleased to address this gathering of the World Affairs Council of Boston and the International Business Center of New England, which have such a long, impressive record of helping Americans learn more about the rest of the world.

Allow me to make three points this evening. First, that the global recession lays bare, even more than usual, the United States stake in Third World development. Second, that the need for U.S. leadership on global economic issues is more pressing than ever during these years of economic difficulty. And, third, that more vigorous U.S. leadership on economic issues will depend on better understanding of world affairs by the American people.

* * *

First, then, let me talk about the U.S. stake in Third World development against the backdrop of the global recession.

The Mexico debt crisis at the end of August is only one aspect of a more far-reaching problem. For the first time since the Second World War, the momentum of Third World development has, for the most part, been broken.

Over most of last generation, most of the developing countries enjoyed rapid economic progress. On average, per capita incomes in the developing countries doubled between 1955 and 1980.

Even the "low-income" developing countries generally enjoyed some economic progress. By "low-income" I mean countries with incomes less than roughly a dollar per person per day. Even these poorest of the poor nations managed to raise their average life expectancy from 44 years in 1955 to 57 years in 1980, and the proportion of their people who can read jumped from one-quarter in 1955 to one-half in 1980.

During the worldwide economic difficulties of the Seventies, most of the low-income countries began to suffer declines in per capita income. But many of the other developing countries proved to be tenaciously dynamic -- more dynamic than the world economy as a whole -- during the Seventies.

A number of countries are still making good progress, but, as a group, the developing countries suffered overall declines in per capita income in 1981 and 1982.

This break in the momentum of development has resulted in widespread decreases in family incomes, implying severe hardship for poor people near subsistence levels. The impoverishment has been especially acute and pervasive in Sub-Saharan Africa.

And all around the world, producers of non-fuel commodities have suffered from prices that have fallen lower, on average, than at any time in at least 35 years. In Bangladesh, for example, half of all farmers -- generally the poorer half -- depend on their sales of jute for all or most of their cash income, and in recent years they have been able to buy less cloth and tools -- rather than more -- with what they get from a given quantity of jute.

Against this scene of general economic stagnation in the developing countries, the interests of the United States in Third World development now stand out more sharply than ever.

The part of the story that has made the headlines is that some developing countries, like Mexico, are now having difficulties repaying their debts to commercial banks.

The most worrisome aspect of the Mexico liquidity crisis is that commercial banks may, in reaction, curtail their lending to all developing countries. Of course the banks should be cautious. But a sharp withdrawal of credit would only aggravate the liquidity problems which some countries are now facing. It should be remembered that, although there have been instances of mismanagement, even some prudently managed countries have been caught in the worldwide squeeze between rising interest rates and falling export sales. And it makes no sense at all to tar all developing countries with the same brush. Most middle-income developing countries remain creditworthy, with good potential for growth. In fact, some developing countries are actually under-borrowed.

It can be stated with certainty that the Mexico debt crisis, like the OPEC price rise in 1973, has made Americans more aware of their stake in Third World development. We have seen encouraging indications in recent weeks that the United States is giving increasing attention to issues of Third World development. Some progress seems to be underway, for example, toward increased funding for the International Monetary Fund. And the recent decline in interest rates, which has been allowed to proceed by a perceptible shift in emphasis on the part of the Federal Reserve Board, will provide some relief to those developing countries which have significant short-term commercial debts.

But the slump in Third World development is also aggravating unemployment here in the United States.

Exports accounted for 27 percent of all the growth in U.S. civilian employment between 1977 and 1980. But international trade has suffered zero percent growth in 1981 and 1982, and more than two-thirds of the drop in the national income of the United States since July 1980 has been due to a decline in exports.

The United States now sells 38 percent of its exports to developing countries, more than it sells to all of Europe and the Soviet Union combined. And exports to buoyant Third World markets grew particularly rapidly in the Seventies. But Third World markets no longer provide that extra boost to employment in the United States.

In addition to all commercial interests, Americans also have an interest, as world citizens, in Third World progress on the population issue. In recent years, quite a few developing countries have managed to lower their rates of population growth. But this progress, too, may well be retarded under today's conditions of economic retrogression.

And, finally, the economic anguish of the developing countries is also having disturbing effects on world security. Many governments in the Third World have come under urgent pressures to solve economic problems which are, in part, beyond their control. Economic malfunction and increasingly severe poverty, if they continue, may well have long-term weakening effects on the legitimacy -- and stability -- of political and economic institutions in all parts of the world.

The overall stagnation of Third World development makes us feel the tug of all the many ties to the developing countries -- financial, economic, ecological, political, and moral -- more than ever.

* * *

Let me go on, then, to my second main point this evening: if the nations of the world are to recover sustained economic dynamism, we will need vigorous United States leadership on global economic issues, including issues of particular concern to the developing countries.

The debt problems of some Third World countries and the slump in international trade are both symptoms of a more fundamental disease -- the now worldwide epidemic of "stagflation."

The cause of regaining and sustaining non-inflationary growth will not be served by stop-and-go policies. For the foreseeable future, expansionary demand policies will be somewhat limited by the need to keep inflation under control.

So there is simply no alternative to heightened, ongoing attention to the basics of development -- increases in efficiency, productivity, and investment in both the developed and developing countries. We cannot be content with gaping inconsistencies between monetary and fiscal policies in the major industrial nations. And all nations should pursue structural adjustments that will make them more fit for growth and development over the medium- and long-term.

Somehow we've got to find ways to bust out of the bog that international trade and finance are now mired in. One of the most obvious ways to revitalize some of the dynamism of the global economy is to take full advantage of the economies which are possible through closer international integration.

As the largest economic unit within the world economy, the United States has a unique -- and yet difficult -- obligation to provide leadership on global economic issues during the months -- and years -- ahead.

In the years following the Second World War, the United States was really dominant in the global economy. It produced over two-fifths of the world's total output. U.S. leadership during that period was primarily responsible for setting in motion the basic institutions and policies which have fostered unprecedented global integration and worldwide economic dynamism over most of the last generation. U.S. leadership was particularly decisive, for example, in the early years of the Bretton Woods institutions, The World Bank and the International Monetary Fund.

In recent years, however, leading the world economy has become a more complicated -- and usually a more frustrating -- task. Although the U.S. economy has expanded faster than ever before in its history, other areas of the world economy have expanded even more quickly. So the U.S. share in the world's total output has dropped to about one quarter. The world still looks to the United States for leadership on global economic issues, but the United States must now elicit coordinated action by other nations if it is to lead effectively.

My eighteen months now as an international civil servant have made me yet more keenly aware of how crucial U.S. leadership in global economic affairs is. Even when the United States exerts vigorous leadership, it doesn't always gain the necessary cooperation from other countries. But if the United States fails to provide leadership, no other country or group of countries can easily lead the way. And if the United States balks, it is almost impossible to organize meaningful global cooperation without its participation.

One positive example of economic cooperation in recent years has been improved coordination of macroeconomic policies among the major industrial nations. Yet even more coordination is required. The degree of coordination that has been achieved on macroeconomic policy issues has contributed significantly, for example, to recent successes in bringing down inflation.

Trade is another area where international cooperation is needed. U.S. leadership was of major importance in securing a successful outcome in the Tokyo Round of trade negotiations in the 1970s. But the winds of protectionism are now blowing stronger than at any time in recent memory. Bit by bit, the major trading nations have been giving in to these damaging pressures. At the GATT Ministerial Meeting last month, they failed to launch any decisive new initiative for more liberal trade, or even to demonstrate solid resolve against further encroachments of protectionism.

There is also an urgent need for U.S. leadership on issues that relate in particular to Third World development. In recent times, especially with regard to multilateral economic assistance, the U.S. has been less than forthcoming, often hesitant, rather than bold. Sometimes it has left a leadership vacuum that, given today's international political realities, no other nation can fill.

The United States is the largest shareholder in The World Bank, and its support is absolutely crucial if the Bank is to respond effectively to the challenges of Third World development under today's adverse circumstances.

As you know, The World Bank consists of the International Bank for Reconstruction and Development (IBRD) and two affiliates: the International Finance Corporation (IFC) and the International Development Association (IDA).

IBRD capital comes from the subscriptions of its 144 member governments; the bulk of it is callable capital, and a small part of it is paid-in capital. IBRD has never suffered a loss or a default. It has earned a profit in every year of its existence -- including \$600 million in each of its last two years. So with that record of excellence, and backed up by an aggregate capital in excess of \$45 billion, IBRD borrows on the principal capital markets throughout the world. We then lend these resources, to credit-worthy developing countries, at near-commercial rates of interest for terms of 15 to 20 years. This lending supports specific projects and programs, and, most important, IBRD helps the developing countries put into place an appropriate economic policy framework to accelerate their development. Our lending program for the current fiscal year is \$11 billion, up from \$10.3 billion last year.

IFC is also owned by member governments. Its capital is provided on a fully paid-in basis. IFC then puts together deals with commercial investors from around the world -- somewhat like a merchant bank -- and invests with them in commercial enterprises in the developing countries. Thus, IFC is also able to leverage limited public resources.

But our operations in the world's poorest countries would be severely limited if it weren't for IDA, the World Bank's concessional assistance affiliate. And we depend almost entirely on grant contributions from 33 donor member governments for the funds which IDA provides to the world's poorest countries -- some 50 of which received financial credits last year.

IDA is the world's largest source of concessional development assistance. It provides funds at zero percent interest for 50 years to the poorest of the poor countries. The world's current economic malaise affects all countries -- developed and developing. But those most severely affected are the world's poorest countries -- those countries which are not credit-worthy, those which cannot borrow on the international marketplace and, therefore, are solely dependent upon concessional official development assistance on a bilateral or multilateral basis.

Despite the fact that more than 80 percent of IDA's resources are invested in the low-income developing countries, its projects have achieved an economic rate of return which has averaged a little less than 18 percent, even a bit higher than the rate achieved on projects financed by IBRD. And IDA is helping the governments of the world's poorest countries to get their economic policies in shape. There are now twenty-seven countries which have "graduated" from IDA -- including success stories like Korea and Thailand -- countries which have enjoyed enough economic growth to become credit-worthy and which are now eligible to borrow from IBRD and the international financial marketplace.

Yet although IDA is effective at a very difficult job, in fiscal year 1982 (ending June 30) we had to slash the IDA program by 35 percent, from \$4.1 billion to \$2.7 billion. This drastic cut-back was triggered by a decision of the United States to stretch out over four years the contributions it had previously agreed to pay to the Sixth Replenishment of IDA in a three-year period ending June 30, 1983.

At the Bank's annual meeting in Toronto last September, most of the 32 other nations that donate to IDA decided jointly to make their contributions in three years anyway, and to put an extra \$2 billion into the pot for the fourth year -- 1984 -- while the U.S. caught up with the rest of the donor group. This should make it possible for IDA to maintain a credit commitment authority of some \$3.3 billion a year through fiscal years 1983 and '84.

The coordinated generosity of the other IDA donors demonstrated fantastic international understanding of the stake which the world's richer countries have in helping the world's poorer countries to overcome their economic development difficulties in this anguished global environment. But the Toronto agreement was exceptionally difficult to organize, because the United States was not able to provide the positive leadership.

As contributions are actually appropriated for fiscal years '83 and '84, and as the donor nations now begin negotiations on the funding of IDA-7 -- for fiscal years '85, '86, and '87 -- more positive leadership from the United States is urgently needed.

* * *

I have outlined U.S. interests in the developing countries against the backdrop of their current economic difficulties, and have stressed the importance of U.S. leadership on global economic issues -- such as funding for IDA. Finally, then, allow me to address myself to the question of what can be done, over the medium term, to encourage U.S. leadership on Third World development issues that is commensurate with the U.S. stake in Third World development.

The economic, technological, and political reality of the twentieth century is global interdependence. But there is still a widespread perception in this country that we can somehow "go it alone." This mistaken notion is tough to root out, because the United States is less vulnerable to external events than most other countries. But the United States, too, is now much more dependent on the rest of the world than it was in the past.

A presidential commission a few years ago documented the inadequacy and recent deterioration of foreign language and international studies at every level of our country's educational system. It reported, for example, that only 15 percent of this nation's high school students study any foreign language, and that only 5 percent make it past the second year of language study.

There is a problem, too, of public information, particularly with regard to the developing countries. Surveys have repeatedly concluded that Americans do feel a responsibility for helping to reduce poverty around the world -- but that they tend to be ill-informed about the developing countries.

Many Americans know little about what's happening in the developing countries, except insofar as political and economic crises erupt into headlines. It is typical, for example, that there is now widespread awareness of the debt problems of some of the developing countries, because the Mexico case became a crisis, but that there remains little understanding of the more fundamental problem that incomes are now deteriorating in most of the developing world.

Americans contribute with exceptional generosity to private voluntary organizations that work in the developing countries. And many Americans think their government still contributes foreign aid with exceptional generosity.

But U.S. foreign aid, which was nearly three percent of national income in 1949, has nosedived down to two-tenths of one percent of national income in 1981. That's second-to-lowest among the 17 major industrial countries of the world -- and Italy is quickly gaining on us -- so that the strongest nation in the world is in jeopardy of becoming the least generous of all the developed nations in its official development assistance giving.

Well, what can be done to improve public information in this country about world affairs and, in particular, about the vested-interest importance of helping developing countries to accelerate their economic and social advancement?

Since coming to The World Bank one of my priorities has been to upgrade the Bank's programs of public information. The World Bank is the greatest single source of knowledge about the developing countries. We have a formidable research department, whose work, we believe, should be more widely publicized. So we are now making much greater efforts to share information -- not only about our programs, but, more importantly, about the developing countries themselves.

Let me also take note of a small but unprecedented program of grants from the U.S. Agency for International Development to support private organizations that are educating U.S. citizens about world hunger. The United States government has not done a great deal to inform Americans about the Third World, and this new program is a significant U.S. experiment in government-sponsored development education.

But, in the end, it is likely to fall mainly to private efforts to provide the main impetus for a better informed citizenry. Recent experiences in Germany and Italy again confirm the pivotal role that concerned religious groups and political action groups can play in changing the policies of industrial nations toward Third World development.

A recent study, entitled Toward a More International Boston, concluded that other cities with comparable resources are doing more than Boston to expand international understanding. But I understand that a group of community leaders has now organized a Council for International Understanding to encourage more involvement by Bostonians in international affairs.

Local efforts such as these, or the many and varied programs of the World Affairs Councils around the country, are terribly important in enhancing the level of international understanding on which vigorous United States leadership on global economic issues necessarily depends.

* * *

We live today in an age when no nation dare ignore developments beyond its national borders. This is a time when the best way to secure benefits for all of humanity is to pool ideas and resources together on a partnership basis.

But this is a time, too, of great strain for all nations. It is in such periods of strain, when the pressures for isolationist policies are greatest, that there is the greatest need for leadership to secure multilateral understandings.

There can be no doubt that the evolution of such understandings, over the past 35 years, has contributed significantly to higher living standards around the world. We should take stock of the benefits we enjoy now because of international cooperation, and mobilize the political will it takes to keep international economic cooperation from being undermined by current pressures.

The U.S. stake in Third World development is especially evident now that the recession has become virtually worldwide. The need for U.S. leadership on global economic issues is more pressing than ever. And the firmest underpinning for such leadership is public understanding of global interdependence.

Let me conclude, therefore, as I began, by saluting your work here in Boston and in New England to promote positive leadership by the United States in international affairs.

Thank you very much.

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